ACQUISITION FRAUD AWARENESS

Unclassified

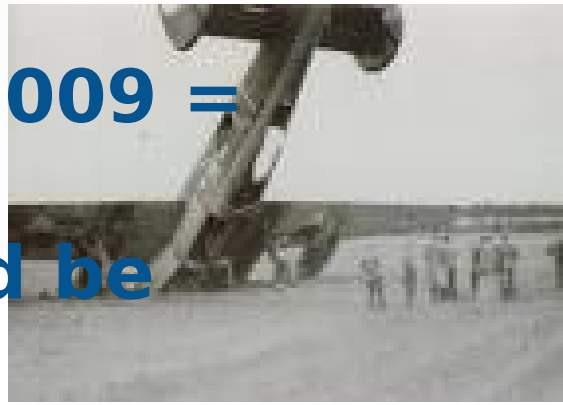
ECONOMIC CRIMES MISSION

- Safeguard the integrity of the Department of Navy (DON) acquisition programs
- Enhance fleet readiness/safety by conducting investigations/initiative operations to reduce fraud in t ess

The Cost of Fraud

- **DON Budget FY 1990 = 99.9 Billion**
- **DON Budget FY 2009 = 149.3 Billion**

- **Estimated U.S. corporations lose 7% of sales annually to fraud**
- **DON Procurement Budget FY 2009 = 65.3 Billion**
  - **7% annual loss to DON would be approximately $ 4.57 Billion**



Even if you don't work in a contracting command, *acquisition fraud* can still directly effect you

- Every time an individual accepts a bribe from a company to award them a contract;
- Every time a manufacturer uses sub-standard material;
- Every time a contractor opts to ‘cut corners’ to save money;

YOUR SAFETY IS THREATENED AND YOUR COMMAND LOSES MONEY!

MAJOR PROCUREMENT FRAUD CATEGORIES

- Bribery
- Subcontractor Kickbacks
- Cost Mischarging
- General Procurement
- Product Substitution

ACCEPTING ILLEGAL GRATUITIES

Someone directly or indirectly gives, offers, or promises anything of value to a public official for or because of an official act. Intent to influence is not required.

Middle East Contract Corruption

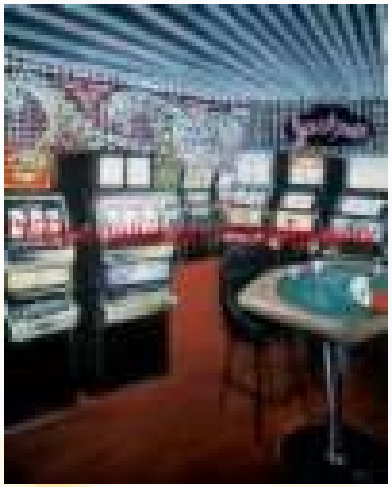
- Multiple NCIS Cases initiated
  - Iraqi and U.S. Companies
  - USMC and USN personnel
  - Foreign Nationals
- Business Culture in Theatre
  - Gratuities are standard business practice
    - Tracked as normal business expense in company records
- NCIS is a member of the International Contract Corruption Task Force

BRIBERY INDICATORS

- Corrupt recipients often spend big or pay off debts with large lump sums
- Changes in behavior are common as individuals receiving bribes often live above their means
  - An E-3 suddenly begins dressing in expensive suits, driving a sports car and taking exotic vacations
- Corrupt recipients will often break rules or direct subordinates to ignore standard operating procedures
- Corrupt payers routinely offer inappropriate gifts or entertainment
- Once the contract is in place, the quality of their product often deteriorates

SUBCONTRACTOR KICKBACKS

Subcontractor provides something of value, directly or indirectly, to a primary contractor in order to influence a business decision and secure a contract



KICKBACK INDICATORS

- Contractors favor specific subcontractors
- Poor or late service by a subcontractor is ignored or excused
- Product documentation is routinely late or incomplete

COST MISCHARGING

Improper allocation of costs or the charging of unallowable costs, directly or indirectly, to a government contract usually resulting in the Government being overcharged for goods and services.

COST MISCHARGING INDICATORS

- Billing employees at higher labor rates than they are qualified
  - Low level technicians are billed as senior engineers
- Billing for employees that do not exist, ‘ghost employees’
- Failing to pass on discounts, credits or refunds received for material
- Double or triple billing for products and/or services not received

PRODUCT SUBSTITUTION/DEFECTIVE PRODUCTS

The intentional submission by the contractor to the Government directly or indirectly of goods and/or services that do not conform to the contract specifications or requirements, without informing the customer.

Counterfeit Products

- Products presented with the appearance of being manufactured by the Original Equipment Manufacturer (OEM)
- Actually manufactured by unapproved vendors
- Labels are forged/falsified
- Often seen on computer circuitry (routers, transistors, etc.) and equipment
- Purchased from China, Malaysia, Thailand, Taiwan
- Priority focus for Department of Justice

PRODUCT SUBSTITUTION INDICATORS

- Delivery of inferior/substandard material
- Delivery of untested materials
- Falsification of test results
- Used, surplus or reworked parts
- Counterfeit products
- Failure of contractor to perform contractually required tests
- Submission of falsified compliance certificates
- Delivery of commercial equivalents
- Creating samples specifically for testing and inspection
- Movement of inspection tags to uninspected goods
- Substitution of look-alike goods

REMEDIES

- Prosecution
  - Criminal (beyond reasonable doubt)
  - Civil (preponderance of evidence)
- Recoveries/Recoupments
  - Fines
  - Forfeitures
- Administrative Remedies
  - Suspension
  - Debarment
  - Termination of contract
  - Offset to contract

Contact Information

- *NCISHQ Fraud Hotline*

  (800) 264 – 6485
- *Multiple Threat Alert Center (MTAC)*

  (202) 433-9418
- ncistipline@ncis.navy.mil